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THE SECOND WORLD, THE THIRD WORLD, AND THE NEW INTERNATIONAL FC--FT  
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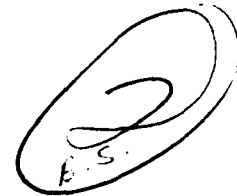
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**THE SECOND WORLD, THE THIRD WORLD  
AND THE NEW INTERNATIONAL  
ECONOMIC ORDER**

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**STRATEGIC STUDIES INSTITUTE  
US ARMY WAR COLLEGE  
Carlisle Barracks, Pennsylvania**

⑥ **THE SECOND WORLD, THE THIRD WORLD,  
AND THE NEW INTERNATIONAL  
ECONOMIC ORDER**

⑦ *Research memo.*  
by

⑩ **Robert H. Donaldson**

⑪ **25 Apr 1980**

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Composition of this memorandum was accomplished by Mrs. Barbara N. Black.

## FOREWORD

This memorandum evolved from the Military Policy Symposium on "The Soviet Union in the Third World: Success and Failure," which was hosted by the Strategic Studies Institute in the Fall of 1979. During the Symposium, academic and government experts discussed a number of issues concerning this area which will have a continuing impact on US strategy. This memorandum considers one of these issues.

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This memorandum was prepared as a contribution to the field of national security research and study. As such, it does not reflect the official view of the College, the Department of the Army, or the Department of Defense.

*DeWitt C. Smith, Jr.*

DeWITT C. SMITH, JR.  
Major General, USA  
Commandant

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### **BIOGRAPHICAL SKETCH OF THE AUTHOR**

**DR. ROBERT H. DONALDSON** is Associate Professor of Political Science and Associate Dean of the College of Arts and Sciences at Vanderbilt University. Dr. Donaldson holds a PhD from Harvard University and has been a Consultant to the Bureau of Intelligence and Research at the Department of State under the auspices of the Council on Foreign Relations Fellowship Program. He was a visiting professor with the Strategic Studies Institute from 1978 to 1979. He has contributed numerous articles and chapters on Soviet and American foreign policies to scholarly publications and is author of *Soviet Policy Toward India: Ideology and Strategy* (1974).

## **THE SECOND WORLD, THE THIRD WORLD, AND THE NEW INTERNATIONAL ECONOMIC ORDER**

One of the ironies of the debate over ratification of the SALT II treaty is that it refocused congressional and media concern on the classic questions of postwar international politics—military strategy, defense budgets, the arms race, the Soviet political and ideological challenge—at a time when the attention of the American public was fixed on an entirely different (and seemingly more pedestrian) set of issues. These latter topics were economic in nature—spiralling inflation, energy supplies and prices, American industry's apparent loss of competitive advantage, threats to the environment from sources as diverse as nuclear power plants or giant ocean-borne oil spills—and they had in recent years risen high on the agenda of government and international negotiations. How well the US Government coped with these issues directly affected both its domestic and international standing; at times, the health of the Atlantic Alliance and the credibility of America's overseas commitments appeared to be more dependent on relative economic strengths and vulnerabilities than on traditional military or diplomatic indices.

What was taking place was no less than a change in the nature of international politics. There was no longer a single international

system dominated by strategic concerns. Military security remained an important issue, but the "new" concerns of world trade, energy, food, raw materials, the world monetary system—each one with its own power hierarchy—have crowded on to the center stage. Alongside the old military alliances against well-defined enemies have arisen new fluid functional bargaining coalitions. Alongside the military rivalry traditionally arrayed on an axis of East to West has appeared a bitter economic conflict between North and South. Nor is this latter struggle necessarily less dangerous than the one it seems to be displacing. Henry Kissinger, in his 1975 speech to the Seventh Special Session of the UN General Assembly, offered a prognosis that was gloomy even for this professional pessimist:

The division of the planet between North and South, between rich and poor, could become as grim as the darkest days of the Cold War. We could enter on an age of festering resentment, of increased resort to economic warfare, a hardening of new blocs, the undermining of cooperation, the erosion of international institutions—and failed development.'

As illustrated by the debate over SALT II and the encompassing issue of Soviet intentions, official and informed public perceptions of the conflicts along the two global axes seemed strangely unconnected. Observers and analysts of Soviet foreign policy, in assessing the impact on the East-West balance of Soviet behavior in the Third World, almost wholly ignored the economic dimensions of East-South relations. Conversely, discussions of the North-South dialogue and of the cluster of Third World economic demands aggregated into the platform for a New International Economic Order (NIEO) almost never considered the Soviet role in this relationship. And yet the Soviet Union's relative isolation from international economic and monetary transactions necessarily limits its capability to influence the outcome of a set of increasingly important issues. In the absence of this economic power, military power alone may not be sufficient to sustain superpower status for the USSR in the coming decades. To recall Robert Legvold's apt question: "How much of a world power is a nation without much power in the world economy?"

Apart from a random comment on Moscow's deliberate nonparticipation in the North-South dialogue, there has been little effort in the expanding literature on these subjects to explore the point of intersection between the East-West and North-South competitions. By adamantly refusing to be lumped with the "rich



North," Moscow thus far has in effect helped turn the latter into a West-South conflict. What effect the absence of an East-South dialogue has had and will have on both East-West and North-South relations is a question of growing importance, and it is one that this study is intended to address in a preliminary way.

After an initial sketch of the history of the North-South dialogue and the key issues raised in the platform for a New International Economic Order, the study then explores the interests and objectives—economic, political, and ideological—that have motivated Soviet behavior in the major forums of this international dialogue. Next it analyzes the official Soviet position on particular issues in the North-South conflict. How the Soviet stand has been perceived by the Third World, and how Moscow's actual record in bilateral transactions with less-developed countries compares with its official positions is the subject of the next section. The study closes with an inquiry into the prospects for change in the Soviet position, assessing the successes and failures of the current Soviet stance and the likely costs and benefits—both for the USSR and for the future of the North-South dialogue—of alternative Soviet strategies.

#### **THE CALL FOR A NEW INTERNATIONAL ECONOMIC ORDER**

The most prominent Third World diplomatic forum, the grouping of nonaligned nations, in the first two decades of its existence virtually ignored questions of international economics. Early preoccupation with issues of war and peace and assertions of the right of the emerging Afro-Asian "bloc" to occupy a position of "neutrality" in the East-West conflict gave way in the 1960's to vigorous concern with the anticolonial struggle. A sort of Third World lobby on economic issues was institutionalized as the "Group of 77" at the first UN Conference on Trade and Development (UNCTAD) at Geneva in 1964, but its activities and interests received little notice until 1973, when its economic platform was in effect adopted at the Algiers summit meeting of the diplomatically more salient nonaligned movement. Having complained for a decade about discriminatory rules and institutions of the international economic and monetary systems that they had no role in creating, the Group of 77 nations (which

actually numbered over 120 by 1979) had found their demands largely ignored by the developed countries. But then the 1973-74 Arab oil embargo and Organization of Petroleum Exporting Countries (OPEC) price increases forcibly attracted the world's attention. The Third World enjoyed an accretion in bargaining power as a result of its unity and its alliance with OPEC, and the Algiers nonaligned summit's call for a New International Economic Order and its demand that a special session of the UN General Assembly be convened to discuss it, thereby took on new force.

With the Western states in relative disarray and the United States in particular refusing even to use the phrase "new international economic order," the UN General Assembly's Sixth Special Session in the spring of 1974 was dominated by the more radical spokesmen of the Third World, and it easily passed a Declaration on Establishment of a NIEO that called for major changes to reduce inherent inequalities in the existing international economic order. Unreconciled to the South's new-found strength and unity, the United States spent the next year seeking to encourage a split between oil-exporting and oil-importing Third World nations. The failure of this strategy, starkly evident at the April 1975 Paris energy conference, produced a shift to a more conciliatory line. Secretary Kissinger's speech to the Seventh Special Session of the UN General Assembly in September 1975 signaled Washington's new willingness to negotiate on the NIEO issues, and this session ended on a note of constructive compromise.

It was thus in a mood of optimism the 8 Northern nations and 19 Southern states convened in Paris in December 1975 for the next round in the dialogue—the Conference on International Economic Cooperation (CIEC). These talks proceeded until June 1977 and their outcome utterly betrayed the fond hopes at their inauguration. Most of the CIEC meetings were spent in feuding about the agenda, so that the substantive results were scanty indeed. The Paris "dialogue" was interrupted by the fourth UNCTAD conference—held in Nairobi in May 1976 and similarly devoid of substantive achievements—and the Colombo Nonaligned Summit of August 1976, at which the South's demands for the NIEO were stated with renewed determination.

Apart from these forums for general discussion of the North-South agenda, the past several years have brought special UN-

sponsored conferences on Population (Bucharest, 1974) and Food (Rome, 1974) as well as the Third Conference on the Law of the Sea (Caracas, Geneva and New York, 1974-78). With the partial exception of the World Food Conference's decision to augment the global institutional framework for promoting "food security," these conferences ended either in utter deadlock or by producing final documents that simply papered over continuing sharp factional disagreements.

The platform for a NIEO, on which such extensive discussions have already been held, consists of demands for greater economic self-determination, sovereignty over national resources, and equality of participation in the international economy, together with specific proposals in a number of issue areas. In the *trade* arena, the key proposal is for commodity agreements to raise and stabilize prices of exported raw materials, financially undergirded by a common fund underwritten by the developed countries. Other trade proposals include a call for expanded general (and nonreciprocal) preferences for manufactured products of the less-developed nations in the markets of the industrialized world, and other measures to expand the role of the developing countries in producing the world's industrial goods. In the realm of *aid* the NIEO platform reaffirms the target of 0.7 percent of GNP for official development assistance from North to South, and states a goal of 1 percent from private and public sources combined. It also calls for more generous financing of various emergency funds (such as that administered by the World Food Council), with the funds again to come primarily from the developed countries. Moreover, the platform demands widespread debt relief for the less-developed countries, to the point of either forgiveness or postponement of the growing external public debt of the countries of the South. In the arena of *foreign investment*, the NIEO declaration calls for elimination of certain legal restrictions on the nationalization of foreign direct investment, and for the promulgation of a set of rules to govern the behavior of multinational corporations in ways that benefit host countries. In the related area of *technology transfer*, the platform calls for a greater and less-restricted flow of technology from North to South. Finally, in the realm of the international *monetary system*, the NIEO declaration demands a larger voice for the developing countries in the reform and management of institutions such as the International Monetary Fund and World Bank, and it proposes a method of providing

automatic access to more freely created IMF reserves. In 1976 at the UNCTAD IV and Colombo conferences, a new set of demands, referring specifically to the relations between the developing countries and the countries of "the socialist commonwealth," was added to the standard NIEO list. The revised version called for an end to barter-type trade and aid practices and a switch to the use of convertible currency in Soviet and East European dealings with the developing countries.

Considering the total list of Third World demands, one must conclude that the first 5 years of bargaining on the NIEO platform have produced very little change from the practices of the "old order." Individual countries of the North, such as the Netherlands and some Scandinavian nations, have formally accepted the higher aid targets and have agreed to renegotiation or even forgiveness of Third World indebtedness. The major collective concession by the North has been the agreement (in the spring of 1979, just prior to the UNCTAD V Conference at Manila) on a common fund for commodity price stabilization. But even this did not represent a clear-cut victory for the South, since the fund's initial financing was to be at a much lower level than originally proposed by the Group of 77.

## THE SOVIET POSITION

Having taken note of the history and the rather scanty fruits of the North-South dialogue, we can now proceed to consider the attitude and role of the Soviet Union in these negotiations. We should first point out, however, that in most of its pronouncements and actions relating to the NIEO, the Soviet Union has presumed to speak for (and sometimes has been formally joined by) the other members in good standing of the East European "Socialist Community." Besides Albania, this excludes Yugoslavia—one of the most active members of the nonaligned movement and thus one of the foster parents of the NIEO—and Rumania, which recently capped off 15 years of "maverick" behavior in the bloc by suggesting that it might seek formal affiliation with the nonaligned. But for Poland, Czechoslovakia, the German Democratic Republic, Hungary, and Bulgaria, the positions and behavior of the USSR with regard to these issues have generally served as guide and model.

To understand the Soviet stance toward the North-South

dialogue, one must begin with the realization that the issues involved are of relatively low priority for the current Soviet leadership. This is not surprising considering the noninvolvement of the USSR in the institutions of the international economic and monetary systems; Moscow does not belong to the World Bank, the International Monetary Fund, the Food and Agriculture Organization, and the General Agreement on Tariffs and Trade, among others. Moreover, the Soviet emergence from the Stalinist period of autarchy is relatively recent and by no means complete. Total foreign trade turnover in 1975, after 5 years of unprecedented growth, still represented only 8 percent of the Soviet GNP (compared with the US figure for the same year of 13.4 percent). Of the 1975 total, 56 percent was with the other socialist countries, 31 percent was with the West, and only 12 percent was with the developing countries. These figures and the recent trends in Soviet foreign trade suggest that the growth and management of East-West trade is far more important to Soviet planners than is the USSR's trade with the South.

But from the Soviet perspective, the entire issue of economic cooperation with the world capitalist economy—West or South—is distinctly secondary to and dependent on the outcome of Soviet policy in the “main arena” of East-West political-military rivalry. And in particular, the very ability of the developing countries to put forward the platform for a NIEO is said to be a result of progress (attributable to Soviet diplomacy) toward relaxation of international tension and the restraining of imperialist aggressiveness.

. . . an important interdependence exists between the restructuring of international economic relations and problems of limiting the arms race, disarmament and consolidating security—further progress in political and military detente, which is of paramount significance for strengthening general peace, will at the same time contribute to the normalization of the world economic situation.’

Were it not for the strength and support of the socialist camp, the developing countries would not only still be prey to raw coercion by the imperialists, but would also have had no alternative markets or sources of assistance. Thus, in Moscow's view, progress toward economic self-determination in the developing countries can come only through the assistance of the socialist countries and through progress in their struggle for detente. The clear implication

is that the developing countries must continue to support Soviet foreign policy initiatives in the East-West competition if they are to hope for progress in the solution of their own priority issues. To the consternation of many Third World delegations at UNCTAD and UN General Assembly sessions devoted to discussing the NIEO, the Soviets have persistently sought to broaden the agenda to include discussion of their current favorite detente or disarmament proposals.

Having put it in its proper global context, the Soviets are then willing to give a very general endorsement to the NIEO program. They insist, however, that it must be understood as more than just "tinkering" with the world capitalist economy, but rather as a "vote of no confidence in the 'free enterprise' system" and in capitalism's ability to resolve Third World economic problems.<sup>4</sup> Thus understood, the NIEO program received the qualified official endorsement of the Soviet government in a 1976 statement:

The program . . . for the establishment of a "new international economic order" expresses legitimate aspirations—to extend the process of the liquidation of colonialism to the economic sphere. . . . The Soviet Union takes an understanding attitude toward the broad program of measures which reflects the vital and long-term interests of the developing countries, and it supports its fundamental thrust.<sup>5</sup>

In their contributions to the NIEO debate, Soviet and East European spokesmen have been at pains to direct the attention of the developing countries toward the "monopoly circles in capitalist states" as the sole cause of Third World economic backwardness and the chief obstacle to removing it. Soviet officials and analysts have warned Third World leaders not to be taken in by the seeming concessions of "so called aid" or promotion of "modernization" on the part of the "imperialist" states. Imperialist tactics are said to be more subtle and flexible but unable to change the exploitative essence of the effort to keep the developing countries in a subordinate position in the world capitalist economy. Among these tactics is the effort to buy time by agreeing to a "dialogue" with the Third World, and particularly by seeking to move the discussion to a "partial forum" (the Paris CIEC talks) where the socialist states and more radical Third World states are not present. As the Soviet government statement put it:

The stance of monopoly circles in capitalist states has been and still is the

chief obstacle to the radical restructuring of international economic relations on a democratic basis . . . . The course of continuing and deepening the exploitation of developing countries for their part remains essentially unchanged. It is impossible to count on forcing them to abandon it with the help of all kinds of narrow group negotiations . . . .<sup>6</sup>

But, say the Soviets, the most objectionable imperialist trick—which unfortunately finds an echo in some of the speeches and documents of the Third World states—is the effort to lump the industrialized capitalist and socialist states together in a “rich North versus poor South” dichotomy that denies the imperialist monopoly blame and substitutes the notion of “equal responsibility.” Such a tactic, which is said to be a joint imperialist and Maoist concoction, seeks to drive a wedge between the Third World and its natural ally the socialist commonwealth, and thereby doom to failure the cause of restructuring the international economic order. Foreign Minister Gromyko’s denunciation of this tactic in his address to the UN General Assembly’s Sixth Special Session is typical in its vehemence:

As before our country will counteract attempts to separate the national liberation movement from its natural ally—the community of socialist states. We shall never accept—either in theory or in practice—the false concept of the division of the world into “poor” and “rich” countries which places on the same level the socialist countries and certain other states which have removed a very, very great quantity of wealth from the countries which were under their colonial yoke . . . . The responsibility of those . . . who really bear the responsibility for the economic backwardness of the developing countries is thereby seemingly removed from the agenda. We do not favor polemics for their own sake, but on this fundamental question it is necessary to call a spade a spade.<sup>7</sup>

Since the “monstrous falsification” of “equal responsibility” is cited as the justification for the Third World’s demand that all “rich” nations share in the financial compensation of the less-developed states, there are economic as well as ideological motives in the Soviet rejection of the concept. Likewise, the Third World spokesmen who are willing to endorse the concept are characterized by Soviet writers as motivated by greed rather than by principle.

The Soviet case for discarding the concept of “rich and poor nations” rests not only on its view of the historical cause for Third World poverty but also upon the claim that the USSR is already assisting the Third World to the limits of its ability and international obligation.

The Soviet Union's might is based not on superprofit monopolies which have grown fat on neocolonial plundering, not on the extreme exploitation of its own working class, but on wealth created by the people's labor . . . to the extent of its capabilities it is prepared to help and does help developing countries to overcome backwardness. But the motive behind its aid does not lie in a "guilt complex;" the socialist community's aid to the developing countries expresses the new, socialist nature of international duty . . .<sup>8</sup>

"Bourgeois theories of interdependence" are also cited by Soviet analysts as subtle masks for the continuation of imperialist exploitation of the less developed countries. By emphasizing their mutual economic dependence with the Third World and raising the spectre of their common economic ruin, the capitalists hope to deflect the developing countries from the effort for radical reconstruction of the economic order. "True interdependence," on the other hand, is said by the Soviets to be founded on equality and mutual benefit and best exemplified in the "socialist division of labor" within the socialist community, which can also be extended, "without any element of exploitation," to the relations between socialist and developing countries.<sup>9</sup>

Another fashionable thesis that has been attacked by Soviet ideologists in their effort to redirect the discussion of the NIEO into a more acceptable context is the notion that international cooperation on massive global problems can unite the global community in a "single world awareness." While acknowledging the need for cooperation on such problems as food supply and protection of the environment, the Soviets insist that such cooperation cannot eliminate the social class barrier separating the capitalist and socialist systems. As two Soviet scholars wrote recently in *Pravda*:

Any attempts to represent the very existence of global problems and the necessity of jointly resolving them as a sign of the "convergence" of socialism and capitalism or as evidence of a change in the nature of one of those systems is completely invalid. Objectively these attempts can serve only one purpose: to camouflage imperialist hegemonism and the worldwide expansion of monopoly capital.<sup>10</sup>

This set of ideological tenets and attitudes has underlain the Soviet approach to the Third World campaign for a NIEO since the first UNCTAD meeting in 1964. At that conference the Soviet delegates sought to place blame for Third World economic woes exclusively upon the capitalist states and to deny that the USSR



shared any responsibility. Although the Socialist states voted with the Third World majority on 25 of 27 principles adopted in the Final Act, this apparent bond masked two strongly opposed sets of priorities. The Soviets sought to channel Third World discontent into the broader Cold War issues, while the Southern states attempted to keep the focus on the rich-poor dichotomy.<sup>11</sup>

A decade later at the Sixth Special Session of the General Assembly, the Soviets were still trying to link the NIEO to broader issues of war and peace and to emphasize the need for anti-imperialist solidarity between East and South. Gromyko's opening statement urged that the economic questions on the agenda be "examined through the prism of politics,"<sup>12</sup> and Soviet delegates tried to include in the preamble to the final declaration a commentary on detente and peaceful coexistence. But Soviet speechmaking and lobbying on these points only tried the patience of Third World representatives, who expressed a preference for concrete proposals (absent from Gromyko's speech) over shopworn polemics.<sup>13</sup> On the specific issues comprising the NIEO platform, the rhetorical stance of the socialist countries was not generally more radical than that of the Third World delegations. One study of the Sixth and Seventh Special Sessions concluded that representatives of the developing countries tended to voice more extreme positions than the socialist representatives on six of nine issues at the Sixth Special Session and on four of nine issues in the Seventh.<sup>14</sup> The difference is explained not by a radicalization of the socialist position between 1974 and 1975, but rather by the generally more moderate and compromising tone of the Third World stance at the latter session.

At the UNCTAD IV Conference in Nairobi in May 1976, the socialist countries promulgated a 34-page joint statement which again stressed the linkage of detente and the creation of the NIEO and which gave general support to the "anti-imperialist" and "anti-monopoly" elements of the Third World stance. Soviet Minister of Foreign Trade Patolichev's speech proposed an extension of the practice of concluding long-term cooperation agreements with the developing countries and spoke of increasing "by 50 percent" Soviet technical assistance to the Third World. The Soviet press hailed the socialist states' contribution to the creation of a business-like and serious atmosphere (in contrast to the confrontationist stand of the West and the "splitting activities" of the Chinese) and claimed that many Third World delegates

appreciated the Soviet stance and displayed "keen interest" in the socialist proposals.<sup>15</sup> In fact, however, the Soviets were rather widely criticized by Third World representatives, with particular complaints about the barter system, high-priced industrial goods, and lack of trade preferences, and a more general resentment at the socialist countries' practice of standing aloof and disclaiming any responsibility for the condition of the world economy.<sup>16</sup>

Standing aloof was an even easier attitude for the Soviets to assume *vis a vis* the CIEC meetings in Paris. No socialist states were invited to participate in these talks, to which the label "North-South dialogue" was frequently attached. The Soviets reportedly complained about their exclusion—a fact which may account for the statement of the host (French President Giscard d'Estaing) in his opening address that the East European socialists might possibly be involved in future work of the conference.<sup>17</sup> But the Soviets probably found it more comfortable to remain outside the dialogue. Had they been present, they might not have known whether to sit with the "North" or the "South." From a distance, they could easily complain about the conference's "separatist" nature ("where the stand of the developing countries is weaker and where they are deprived of the support of the socialist states"), declare that its failure was "predetermined," and urge a return to the United Nations framework.<sup>18</sup>

Turning briefly to consider the Soviet positions on specific issues related to the NIEO, we find first that their qualified general endorsement of the NIEO platform has not translated into firm support (in the form of positive financial commitments) for the concrete proposals embodied therein. Thus, for example, the socialist states have not endorsed or pledged to the common fund for commodity stabilization, they have expressed unwillingness to accept the 0.7 percent GNP target for official development assistance, they have not endorsed the proposal for blanket debt rescheduling, and they have withheld contributions to the special multilateral emergency fund for food assistance. In short, the Soviets have sought to "have it both ways"—acting like a great friend of the "poor South" on the rhetorical level while playing the role of the stingy "rich North" on the level of concrete measures for channeling more funds to the South.

In the arena of trade, Nikolai Patolichev's speech at UNCTAD IV gave general support to the principle of international commodity stabilization agreements. He cited as potential benefits

of such agreements the maintenance of commodity prices at levels which are "economically sound, remunerative and equitable for producers and users alike," the insuring of expanded production and trade of these commodities, and the ability to "take account of changes in the costs of commodities versus manufactures."<sup>19</sup> As noted above, however, he did not endorse the establishment of the common fund to provide the financial umbrella for such agreements. The Soviets' commentary on commodity prices has reflected their dual role as producers and consumers. In general, however, Soviet economists have cited the "need to stabilize and balance world prices for raw material and finished articles at a definite, interdependent level within the framework of international trade agreements." They have warned that, while the "raw material boom" has brought temporary prosperity to some Third World producers, the price situation in most of the South has worsened substantially. These economists conclude that one-sided increases in commodity prices unaccompanied by "progressive socio-economic transformations" or establishment of "mutually advantageous trade agreements" cannot prove to be a successful tactic for the Third World.<sup>20</sup>

In the realm of aid, the Soviets have held their own program up as a model of disinterested and effective assistance, underscoring its concentration in the public sector and on industrialization projects. In explanations aimed at their own public, they stress the mutually advantageous nature of their aid agreements, noting the benefits to the Soviet economy of receiving consumer goods, agricultural products, and industrial raw materials in repayment for Soviet assistance. Soviet commentators acknowledge that the Third World nations' capacity to absorb aid is limited and that some proposed projects do not make economic sense. Moreover, in recent years they have called attention to the limited capacity of their own economy to provide aid in the volume that it might be desired by the Third World.<sup>21</sup> The developing countries, they say, should regard Soviet aid as a sort of bonus; they should realize that the sole obligation for restitution rests on the imperialists and that the primary contribution of the USSR lies in its capacity to restrain imperialist aggression. According to the 1976 Soviet government statement on restructuring the international economy:

The socialist states' aid to developing countries is not recompense for damage inflicted or payment for old sins: it is aid from a friend and ally in the

struggle against the common enemy—imperialism. . . . It is natural, however, that the Soviet Union's potential for rendering economic assistance is not infinite. Of course, the Soviet state cannot fail to be concerned for the well-being of its own people. The Soviet Union carries a great load in ensuring peace and the people's security against the encroachments of aggressive imperialist circles. . . .<sup>22</sup>

The issue of the rescheduling or forgiveness of the public debts of the developing countries was another on which the Soviets assumed a generally sympathetic stance without making a specific commitment. At UNCTAD IV, Patolichev blamed the debt problem on inflation and the "excessive" transfer of profits by "foreign monopolies." Credits granted by the USSR, he implied, by virtue of the fact that they are repaid primarily through supply of the debtor's products, do not present the same sort of problem. At any rate, should a debt problem arise between the Soviet Union and a Southern debtor, "there is always a possibility for mutually acceptable solutions," taking account of particular circumstances, so that "debts could be rescheduled by mutual agreement" or in some cases "even written off."<sup>23</sup>

The feature of Third World economic dislocation that has attracted the greatest public attention in the West is the "world food crisis"—the precarious balance between limited food supplies and imperfect distribution mechanisms on the one hand and the rapidly expanding demand, due primarily to high rates of population growth throughout most of the developing countries, on the other. Although the food and population problems have not been directly incorporated by the Third World into the agenda for the NIEO, they have been an important backdrop for the North-South dialogue and were in fact the subject of separate conferences in 1974.

The Soviet stance at the World Food Conference in Rome was quite consistent with its general posture on NIEO issues. The Soviet delegate stressed that the main causes for the food problem were social and political rather than natural, that the essential precondition for its solution was the implementation of measures of disarmament and reduction of military budgets, and that in fact there was no ground for pessimism with regard to the world's technical capacity to produce adequate food. By his estimate, "effective use of all lands suitable for cultivation would provide enough food for 30 to 40 billion people."<sup>24</sup>

This sort of extravagant optimism about the supply and demand

balance was excised from later Soviet analyses of the problem. The noted Soviet demographer Boris Urlanis wrote in 1977 that the earth's limited resources do indeed set a definite limit to the growth of its population. Citing Soviet Central Asia as an example, he noted that radical changes in the social system will not alone guarantee a diminution of the birth rate and achievement of a stable population. Although he derided the notion of a "population bomb" and stressed that there was adequate opportunity to find an effective solution to the population problem, Urlanis was clearly advocating the adoption of family planning programs by the developing countries.<sup>25</sup> Although Soviet analysts now more explicitly acknowledged that population growth was a contributing factor to a world food problem of "unprecedented dimensions," they still argued that the solution could be achieved only if population policies were accompanied by radical changes in patterns of agricultural ownership and production.<sup>26</sup>

Moreover, the Soviets argued, the importing of food to compensate for scarcities could only be regarded as a "temporary expedient." The developing countries themselves would have to bear the primary responsibility for achieving the reforms that are necessary if food self-sufficiency is to be achieved. In the meantime, if aid is required,

the socialist community considers it just that the developed capitalist states, which are responsible for the disastrous economic situation in most of the developing countries, should give them the necessary aid. Making claims of this kind to the socialist countries is unfounded.<sup>27</sup>

## THE SOVIET PRACTICE

The Soviet position on the issue of food production and distribution is of particular interest because it provides one of the clearest examples of the glaring gap between Moscow's rhetoric and its own domestic and international record. The blatant hypocrisy that is evident in Soviet preachments about the unsatisfactory and expedient nature of food imports and about the miraculous results that can be achieved through socialist transformations in agriculture has not entirely escaped the notice of the Third World. At the various forums discussing the NIEO, there has been growing irritation expressed by representatives of the

South at the Soviet effort to evade all responsibility for Third World economic problems and to pretend that it is already assisting to the level of its capabilities. Encouraged perhaps by the harsh Chinese criticism of Soviet "plunder" of the Third World, developing-country delegates are less reticent to comment on the inconsistencies in Soviet rhetoric and behavior.

To return to the example of food, it is clear that the massive Soviet interventions in the world grain market in 1972 and 1975 not only helped to exhaust the world's grain reserves but also dramatically drove up the prices that had to be paid by less prosperous countries that were also seeking to buy grain at those times. As Robert Paarlberg has put it, the USSR is at one and the same time the world's largest and most irregular producer of wheat and the world's most disruptive grain trading nation. And yet the Soviet Union, by refusing to participate in international "food security" institutions or even to join in information-sharing that provides global early warning of food emergencies, has made "the smallest contribution to collective efforts to recover food security and restore price stability."<sup>28</sup>

In the realm of trade with the Third World, Soviet practices are in fact far from the model of good behavior that Moscow projects at the podium of international conferences. The volume of Soviet trade with the developing countries has indeed risen during the 1970's, but their relative share of total Soviet imports and exports has actually fallen. Only about 5 percent of Third World trade is with the USSR, whereas 75 percent is with the developed capitalist countries. Moreover, their trade with the Soviet Union is increasingly unbalanced, to the extent that Moscow's trade surplus with the Third World countries has been increasingly important in helping to compensate for its deficit in trade with the West. Nor by any means does the Soviet Union provide a favored market for the manufactured products of the developing countries; the capitalist West in fact imports a larger share of manufactures from the Third World total trade than does the USSR.

Soviet pricing practices have come under increasing fire from Third World sources. It is said to be common to find prices of Soviet products sold to developing countries 15 to 25 percent higher than prices of the same products sold to the West, while Third World imports into the USSR often receive 10 to 15 percent less than world prices.<sup>29</sup>

Asia, Africa, and Latin America have become important sources of raw materials for the Soviet Union. This includes not only foodstuffs but critical industrial raw materials as well. In 1975, 20 percent of Soviet imports from the Third World were petroleum products; Western estimates project that the Eastern bloc will be importing substantially more oil and gas by the mid-1980's. The Soviet and East European aluminum industries are increasingly reliant on foreign sources of bauxite and aluminum. Eastern bloc tin imports, principally from Southeast Asia, are increasing; the bloc is already entirely dependent on Third World supplies of natural rubber and sheet mica.<sup>30</sup>

In describing at international conferences the economic benefits of trade between the socialist and developing countries, Soviet spokesmen neglect to mention that weapons constitute over half of the USSR's exports to the Third World. The arms trade is an important source of hard currency for the Soviet Union, so that it proves economically as well as politically beneficial to Moscow. Nevertheless, the harsh reality of this side of Moscow's cooperative relationship with the developing countries appears to give the Soviets a vested interest in Third World turmoil and contrasts sharply with protestations in favor of detente, disarmament, and the reduction of military spending.

The Soviet Union's claims regarding its economic assistance program have been considerably scaled down since the mid-1960's; as we saw above, Moscow now stresses the limitations on its ability to provide credits but professes to be helping to the greatest extent possible. The reality is that the USSR's average annual aid contribution amounts to about .05 percent of its GNP, compared to about .33 percent for the Western countries (and .7 percent targeted by the NIEO platform). Moreover, of the \$11 billion in aid pledged by the USSR in the first two decades of its assistance program, only about \$6 billion was ever actually delivered. Deliveries often lag about 7 years behind commitments.<sup>31</sup> The Soviets contribute only tiny amounts to multilateral foreign assistance programs such as the UN Development Program, and even these amounts are often unutilized because they are provided in nonconvertible currency.

For most of the Third World nations Soviet economic assistance is virtually nonexistent, for Moscow's aid program has been highly concentrated, especially as compared to the American program. The bulk of Soviet aid has gone to countries in the Middle East and

south Asia, and in fact two countries—India and Egypt—have received almost 30 percent of the total amount extended since 1955. Contrary to an impression often conveyed by Soviet propaganda, Soviet economic aid has not been in the form of grants—they actually comprise less than 5 percent of the total—but primarily in the form of long-term credits bearing varying amounts of interest. Nor is Soviet aid extended to the less-developed countries for the free purchase of needed commodities; it is strictly “tied” to Soviet goods, and then usually in the context of approved projects.

The “tying” of Soviet aid and the low rate of “draw down” of Soviet credits, though it has set limits on the usefulness of Soviet aid, has not prevented a number of Soviet aid clients from overextending themselves. A number of the most prominent early Soviet aid recipients (including Egypt, Indonesia, and Mali) had by the early 1960’s greatly surpassed their abilities to borrow or absorb the aid they had accepted, and their economies were reeling under the heavy debt burdens. Contrary to the seeming generosity implicit in Patolichev’s statement on debt rescheduling, the Soviets have been very reluctant to allow it, favoring only a very few close ideological allies (e.g., Cuba, South Yemen) but refusing some other heavy borrowers whose policies are judged less “progressive” (e.g., India, Egypt).

India, the largest and one of the most important of the nonaligned states, has often been cited by Soviet and non-Soviet observers as one of the examples of Moscow’s ability to conduct an effective and successful economic relationship with a Third World country. But in fact, while the Soviet-Indian relationship does balance out on the positive side for both parties, the below-the-surface anomalies and strains in their economic dealings are illustrative of the defects in Moscow’s record of providing support and assistance to the developing countries in the spirit of the NIEO.

Between 1950-51 and 1971-72, India’s trade with the USSR and Communist East Europe rose from 0.5 percent to 20 percent of her total exports, and from a negligible amount to full 11 percent of her imports. But throughout the 1970’s Soviet-Indian trade has been imbalanced, with India’s exports far exceeding her imports. Part of this surplus was used by India to repay past economic assistance from Moscow, and part was utilized to purchase Soviet military equipment. Thus in recent years there has been a net transfer of resources from India to the USSR—a “negative aid flow” of \$28 million in 1970-71 that climbed to \$165.4 million in 1972-73 and



that stood at \$100 million in 1976. The total amount of Soviet economic aid to India between 1954 and 1976 was \$1.943 billion in credits, of which approximately \$290 million had not been drawn by the end of 1976. In recent years, in fact, the rate at which Soviet credits have been utilized has been less than \$25 million annually.<sup>32</sup> This is largely a consequence of Moscow's reluctance to shift away from the traditional pattern of public-sector project aid to nonproject aid and the provision of raw materials, both of which are increasingly desired by the Indians as their own industrial capacity expands.

Not only are the Soviet and Indian economies noncomplementary, but the Soviets have proved to be hardheaded bargainers whose insistence on "businesslike dealings" is manifested by a reluctance to incur economic costs simply for the purpose of picking up a few additional political credits in New Delhi. The Indians have complained about an apparent Russian search for one-sided economic advantages. One incident occurred during 1975, when a visiting Soviet trade delegation, negotiating the export of fertilizer, demanded a 60-70 percent markup in price—which they later scaled down to 35-40 percent when the Indians refused to pay.<sup>33</sup>

An Indian complaint of broader significance concerns the effort by the USSR unilaterally to revise the rupee-ruble exchange rate. The Soviets argued that the falling price of the pound sterling—to which the rupee is linked—justified a revision of the exchange rate from 11.39 rubles per hundred rupees in 1971 to 8.66 per hundred in 1975. The Indians argued that the Soviets were creating a double standard, since the value of the ruble in terms of gold is set arbitrarily and is not subject to market forces. Since India's debt repayment to the USSR is made in rupees, the effect of the Soviet action would be to allow Moscow to purchase more Indian goods with its rupees.<sup>34</sup> India's acceptance of the Soviet argument would have meant an addition of \$160 million to an Indian debt standing, as of mid-1976, at \$450 million. The issue dragged on through many rounds of negotiation, during which both sides adhered stubbornly to their positions until compromise was finally reached in 1979.

Perhaps the most spectacular failure in Indo-Soviet commercial relations was the proposed arrangement, promised by Prime Minister Kosygin during a 1968 trip, for the Soviet Union to

purchase all the rails and railway wagons that India could provide over the next 5 years (though in fact Soviet railways were built on a different scale). This pledge raised Indian hopes of boosting the production of some of their public-sector industries to a level closer to full capacity. A protocol was signed calling for 2,000 cars to be delivered in 1969, and up to 10,000 per year by 1973, with a total over the period of 26,000. But the deal fell through after prolonged haggling between the two sides. The Soviets offered a price amounting to roughly one-half of India's production costs, and then stipulated in the specifications for the wheel assemblies the use of lead and zinc alloys which were available only from the USSR at a high price. The Russians reportedly even attempted to make their purchase of Indian railway wagons conditional on India's purchase of Soviet commercial aircraft. When the deal finally collapsed, the Indians tried to convince Soviet negotiators of their obligation to buy other manufactured goods equivalent in price to the rejected railway wagons. But this argument was apparently spurned by the Soviets.<sup>35</sup>

## PROSPECTS FOR THE FUTURE

To put in perspective the Soviet relationship with India—and indeed with the Third World in general—it is worth recalling how far Moscow has progressed in its presence and influence compared with its almost total isolation only 25 years ago. The examples and trends that we have cited are not intended to deny the fact that the USSR carries substantial weight in Asia, Africa, and even Latin America, but rather to suggest that Moscow's economic policies in particular may have reached a point of diminishing returns.

The Soviet Union's relationship with the Third World on issues relating to the NIEO appears to be increasingly frayed. As in the fairy tale of the emperor's new clothes, some voices at the edge of the crowd are beginning to shout out in anger and frustration at the nakedness that they really see in Soviet policies. Or, to cite Roger Hansen's use of a different metaphor to illustrate the same conclusion:

the Soviet Union's days as a Southern cheerleader without responsibilities would appear to be numbered. . . . Already the developing countries, viewing the Soviet Union as a 'have' power, are increasing their criticism of Soviet trade and aid policies that are negligible in their efforts to assist Southern economic development.<sup>36</sup>

What is happening to the USSR's position in the Third World is an apt illustration of the handicaps that Moscow suffers as a result of its limited international economic capabilities. The Soviets have been able to gain footholds in a number of strategic Third World locations, particularly on the periphery of the Indian Ocean, by virtue of their political and military support of leftist movements, backed up with ample supplies of Soviet arms and frequently with Cuban troops. And yet they have found it exceedingly difficult to *sustain* their influence or to prop up their client regimes through military means alone. Conversely, in areas where the USSR has *not* established a military supply relationship, it has hardly any influence at all. To put it another way, the Soviets' expanding political ambitions in the Third World, initially boosted by their military instrumentalities, are in the longer run subject to being undermined by Moscow's limited economic capabilities.

Apart from the implications that this has for the long-term success or failure of Soviet policies in the Third World, the Soviet overreliance on military instrumentalities of influence has profound consequences for both East-West and North-South relations. In the former case, the wave of initial Soviet successes in Africa and the Middle East, even prior to the invasion of Afghanistan, aroused American anxieties to the point of threatening to reverse progress in arms limitation talks and the overall detente relationship—and perhaps even to provoke American military countermeasures in the Persian Gulf-Indian Ocean area. The costs of this likely setback to East-West relationships and revival of US-Soviet zero-sum competition in the Third World are compounded by the danger that domestic stability and the prospects for progress toward development in the Third World will be even further disrupted. As the states of the South have clearly perceived, the heating up of the East-West competition may well doom the North-South dialogue and the prospects for agreement on the New International Economic Order.

One possible conclusion is that this outcome is precisely what the Soviets have sought to achieve—that by refusing to engage seriously in the North-South dialogue and by pursuing their own destabilizing bilateral relationships in the Third World, the Soviet policymakers have consciously promoted a breakdown of the North-South negotiations on the NIEO. If this is the case, the Soviets would seem to have opted for a policy that threatens them

with several adverse consequences. The major spokesmen for the Group of 77 are not likely to regard the Soviets as blameless in the case of such a breakdown, and assuming that the South remains unified, it is difficult to see how Moscow could recoup sufficient prestige or display sufficient economic generosity to allow her to build a viable East-South alliance. To the extent that an embittered South (including the OPEC nations) sought to take retaliatory measures against the recalcitrant North—for example, further hikes in raw material prices, new embargoes, unilateral defaulting on debts, nationalization of joint enterprises—the Soviet Union would not likely be immune from harmful economic consequences. Even apart from the cost to its own economy that might follow from either economic warfare or economic collapse in the South, the Soviet Union is by now sufficiently dependent on the Western capitalist economies to be economically vulnerable to disruptions that might occur in the West.

These adverse consequences might well befall the Soviet Union in the event of a breakdown in the North-South dialogue, whether Moscow had stayed out of the North-South talks or had actively joined in for the purpose of disrupting them. To look at the other side of the coin, what implications might there be for the USSR in the event that some form of comprehensive accord were reached in the North-South talks? If such an agreement were concluded without the participation of the socialist bloc, it would likely result in even greater economic isolation from the international economy for Moscow and its allies. Ironically, the consequences for the USSR might be identical to those that one Soviet analyst claimed finally had forced the United States to bargain with the South: (1) US (read: USSR) dependence on trade with the South was such that "open trade and political confrontation had an extremely serious effect on the economy"; (2) from the "political standpoint it was impossible for [Moscow] to continue ignoring the NIEO program because of the obvious harm to its already low international prestige and danger of its isolation in the UN"; (3) "the developing countries began to institute some of the measures unilaterally after the [East] proved reluctant to discuss them."<sup>37</sup>

But if the socialist countries were to join in the North-South dialogue and contribute to a constructive compromise agreement on the NIEO issues, Moscow would by no means be immune from risks and disadvantages. On the positive side of the ledger, we might expect that the USSR would share in the benefits of

expanded production and trade that would accompany the economic invigoration of the Third World, as well as enjoy the advantages that would accrue from cooperative solutions to the global problems of food supply, overpopulation, and ecological imbalances.<sup>38</sup>

But to the extent that a cooperative accord would mean that the Soviets would be obligated to expand greatly the level of their economic aid, to reschedule Third World debts (to the detriment of their own balance of payments), and to help underwrite commodity stabilization agreements, there would likely be—at least in the near term—a substantial direct economic cost for Moscow. Moreover, the realization of some of the goals of the NIEO could bring substantial indirect costs for Moscow as well: the USSR might well find itself paying more for raw materials and competing directly with the Third World nations for Western grain, Western credits, and Western technology. To a certain extent, then, the short-term growth in North-South trade and resource transfers might well come at the expense of East-West transactions. Added to these economic costs would be the ideological costs that might attend Moscow's greater interdependence with the world capitalist economy, including the adjustments that would necessarily flow from Soviet membership in international economic and monetary institutions.

To a believer in classical economics, with faith in the inevitability of the benefits of freer trade and comparative advantage, it would appear that any short-term economic costs to the USSR would be outweighed by the longer term expansion in general world production, trade and prosperity. Since a considerable portion of Marxian economics is founded on the principles of the British classical economists, it is not unlikely that a Marxist would share in the expectation of long-term benefits to be gained from the cooperative strategy we have outlined.

Sadly, however, there is little evidence that the present Soviet leadership is inclined to run the ideological, political, and economic risks that adoption of a cooperative strategy might entail. Equally unfortunate is the fact that the Western nations have thus far apparently made little genuine effort to invite the Soviets to assume such a role. The effort should be made, through a combination of persuasion, the promise of mutual benefit, and the implied threat of proceeding to frame constructive solutions to global problems

of proceeding to frame constructive solutions to global problems even without Soviet participation. But the very magnitude of the task demands that the door be kept open, in the hope that future Soviet leaders might have the vision that would enable them to take the risks of genuine global economic cooperation.

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in bilateral transactions with less-developed countries compares with its official positions is the subject of the next section. The memorandum closes with an inquiry into the prospects for change in the Soviet position, assessing the successes and failures of the current Soviet stance and the likely costs and benefits--both for the USSR and for the future of the North-South dialogue--or alternative Soviet strategies.

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